



IDAHO

DEPARTMENT OF FINANCE

C.L. "BUTCH" OTTER
Governor

GAVIN M. GEE
Director

TO: All Idaho Licensed Mortgage Broker/Lenders, Registered Exempt Entities and Mortgage Loan Originators

FROM: K.C. Schaler, Supervising Examiner

DATE: November 1, 2010

RE: Credit Report Review and Helpful Hints

The Consumer Finance Bureau has seen a large increase in the number of inquiries from licensees as to what regulators will be looking for in licensees' credit reports. The purpose of this Memorandum is to describe how credit report information will be reviewed and what effect it may have on licensees.

A stated purpose of the Idaho Residential Mortgage Practices Act is "... *to protect consumers seeking mortgage loans and to ensure that the mortgage industry is operating without unfair, deceptive, and fraudulent practices on the part of the mortgage loan originators*" (Idaho Code §26-31-302(1)). Beginning on November 1, 2010, the licensing process will involve a review of individual credit reports to enable the Department in making findings that each mortgage loan originator "... *has demonstrated financial responsibility, character and general fitness sufficient to command the confidence of the community and to warrant a determination that the mortgage loan originator will operate honestly, fairly, and efficiently...*" (Idaho Code §26-31-306(1)(c)).

Credit reports will be reviewed on an individual basis. There is no minimum credit score that will automatically disqualify a licensee. A bankruptcy filing, alone, will not disqualify anyone from obtaining a license. The Department will be reviewing for underlying financial fitness.

Patterns of negative credit information rather than single event occurrences will be a focal point of the review process—unless fraud or deception are involved, in which case stricter scrutiny will be applied. The following are the types of factors that may be considered in the review:

1. A history of failure to pay financial obligations;
2. Outstanding liens, collection accounts, and judgments;
3. Foreclosures within the past three years;
4. Truthfulness and accuracy in the Form MU4 (and Form MU2 if applicable);
5. Accounts that are 90 days or more delinquent; and
6. Bankruptcies in the past ten (10) years.

The Department may consider certain extenuating circumstances in determining whether an individual has demonstrated financial responsibility, character and general fitness.

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By doing the following, licensees can prepare now to address negative items in credit histories:

1. Make sure Form MU4s (and Form MU2s if applicable) are current and up to date with all required disclosure answers. Over-disclosure cannot hurt you. Under-disclosure can be costly;
2. Start gathering items such as repayment plans and agreements, copies of judgments, liens or other supporting documents, debt satisfaction documents, and bankruptcy status documents such as discharge certificates;
3. Prepare letters of explanation concerning circumstances of negative credit issues, and be prepared to provide supporting documentation;
4. Send in response items and documents early so information can be placed in your file for use when your credit report comes in. Department staff will request additional information if it is needed.

Be prepared to work with licensing staff on requests for information and be timely in the responses. Give Department staff the full picture upon which to base a licensing decision. Information received from licensees in connection with a license application is exempt from disclosure under Idaho's public records law.

License renewal decisions in 2010 will not be based on credit report content. The Department's consideration of credit reports will occur in 2011, and no impact on licensees will occur until further communication from the Department.

If you have questions regarding credit reports and mortgage loan originator licenses, please contact Erin Van Engelen at (208) 332-8068, Carol Berenger at (208) 332-8087, or K.C. Schaler at (208) 332-8064.